

## Message Text

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ORIGIN NEA-16

INFO OCT-01 ISO-00 XMB-07 COM-08 FEA-02 AGR-20 CEA-02

CIAE-00 DODE-00 EB-11 FRB-03 H-03 INR-11 INT-08 L-03

LAB-06 NSAE-00 NSC-07 PA-04 RSC-01 AID-20 CIEP-03

SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SP-03

OMB-01 SWF-02 OPIC-12 /200 R

DRAFTED BY NEA/SP:JKMATTER:KM  
APPROVED BY NEA:ALATHERTON,JR.  
EB/CBA:JWBILLER (DRAFT)  
EB/ITP:MWGLITMAN (DRAFT)  
EB/ORF:JLKATZ (DRAFT)  
EB/IFD/OIA:RJSMITH(DRAFT)  
TREAS/OMEA:JNEWMAN (DRAFT)  
TREAS/OMEA:JGARLIN (DRAFT)  
COMM/CAGNE:JPWENTWORTH  
COMM/BIC:FABBUHL  
XMB:CHAMMOND (IN PART)  
OPIC:JOFFUT (IN PART)  
STR:SLANDE (DRAFT)

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R 140037Z SEP 74

FM SECSTATE WASHDC

TO AMEMBASSY TEL AVIV

C O N F I D E N T I A L STATE 202713

E.O 11652: GDS

TAGS: ETRD, EFIN, EIND, EINV, IS, US

SUBJECT: FIRST SUBCOMMITTEE MEETINGS OF US-ISRAEL  
JOINT COMMITTEE FOR INVESTMENT AND TRADE

1. SUMMARY. SUBCOMMITTEES ON CAPITAL INVESTMENT, TRADE,  
AND RAW MATERIALS MET IN WASHINGTON SEPTEMBER 4-8.  
ALTHOUGH ISRAELI DELEGATION BECAME AWARE THAT USG WAS  
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UNABLE TO ACCOMMODATE MANY OF ISRAEL'S REQUESTS, MAINLY

BECAUSE OF IMPORTANT MULTILATERAL, LEGAL, AND DOMESTIC CONSIDERATIONS, USG SIDE'S POSITIVE ATTITUDE AND WILLINGNESS TO EXPLORE ALTERNATIVE WAYS OF ACHIEVING DESIRED TRADE AND INVESTMENT OBJECTIVES EVOKED INCREASINGLY POSITIVE ISRAELI REACTION AS TALKS CONTINUED. SUBCOMMITTEES PRODUCED DETAILED CONFIDENTIAL REPORTS, RECORDING PROGRESS MADE DURING FIRST MEETINGS. IT WAS AGREED THAT NEXT SESSIONS OF SUBCOMMITTEES WILL TAKE PLACE IN JERUSALEM DURING WEEK OF OCTOBER 21-25. END SUMMARY.

2. RESULTS OF DISCUSSIONS OF THREE SUBCOMMITTEES ON CAPITAL INVESTMENT, TRADE, AND RAW MATERIALS, WHICH MET SEPTEMBER 4-8 WERE RECORDED IN SUBCOMMITTEE REPORTS WHICH WILL BE POUCHED TO TEL AVIV. HIGHLIGHTS FOLLOW.

3. THERE WAS SOME INITIAL DISAPPOINTMENT ON PART OF ISRAELIS WHEN THEY BECAME AWARE THAT USG WAS UNABLE TO ACCOMMODATE MANY OF THEIR REQUESTS IN FORM THEY WERE PRESENTED. ISRAELIS ASSERTED THEY HAD EXPECTED MORE INITIATIVE AND MORE POSITIVE RESULTS FROM U.S. SIDE. MAIN BASIS FOR DIFFERENCE OF VIEWS WAS ISRAEL'S DIFFICULTY IN APPRECIATING IMPORTANCE OF MULTILATERAL CONSIDERATIONS TO USG, AND NECESSITY OF USG TO WEIGH IMPACT, BOTH INTERNATIONALLY AND DOMESTICALLY, OF EXCEPTIONS MADE ESPECIALLY FOR ISRAEL. HOWEVER, POSITIVE USG ATTITUDE AND WILLINGNESS TO EXPLORE AND PROPOSE ALTERNATIVE WAYS OF MEETING ISRAEL'S REQUIREMENTS INCREASINGLY EVOKED POSITIVE ISRAELI REACTION, AND ATMOSPHERE IMPROVED AS MEETINGS CONTINUED.

4. BOTH SIDES AGREED THAT THEIR DISCUSSIONS SHOULD BE REGARDED AS CONFIDENTIAL, AND THAT SUBCOMMITTEE REPORTS SHOULD BE CONSIDERED INTERNAL DOCUMENTS. USG SIDE EMPHASIZED SENSITIVITY OF SOME PROPOSALS, AND THAT PUBLICITY COULD HAVE ADVERSE EFFECT ON OUR ABILITY TO IMPLEMENT THEM. IT WAS AGREED THAT PUBLICITY ON RESULTS OF SUBCOMMITTEE DISCUSSIONS WOULD BE DEFERRED UNTIL MINISTERIAL MEETING SCHEDULED FOR NOVEMBER 18-19 IN WASHINGTON. NEXT SUBCOMMITTEE MEETINGS WOULD TAKE PLACE IN JERUSALEM DURING WEEK OF OCTOBER 21-25.  
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5. ISRAELIS RAISED QUESTION OF EXIMBANK FINANCING IN ALL THREE SUBCOMMITTEES. ISRAELI SIDE URGED THAT EXIMBANK APPLY TO ISRAEL MOST FAVORABLE TERMS POSSIBLE WITH REGARD TO RATE, TERM, AND DIRECT PARTICIPATION IN LOAN. IN DISCUSSIONS AT EXIMBANK, ISRAELI REPRESENTATIVES SPOKE OF EXTENSIVE NEEDS FOR IMPORTS INCLUDING RAW MATERIALS. LETTER SUMMARIZING THESE REQUESTS WAS

LATER PRESENTED TO EXIMBANK INDICATING FINANCING REQUIREMENTS OF UP TO DOLLARS 400 MILLION. EXIMBANK REMAINED NONCOMMITTAL.

6. (A) IN SUBCOMMITTEE ON CAPITAL INVESTMENT, USG SIDE EMPHASIZED IMPORTANCE OF INVESTMENT CLIMATE IN HOST COUNTRY AS MOST IMPORTANT FACTOR IN ATTRACTING CAPITAL INVESTMENT. USG PARTICIPANTS NOTED THAT INVESTMENT DECISIONS WERE ESSENTIALLY PRIVATE IN UNITED STATES; THERE WERE LIMITATIONS ON WHAT GOVERNMENT COULD DO TO FACILITATE INVESTMENT, BUT USG WOULD UNDERTAKE TO PUBLICIZE OPPORTUNITIES AND FACILITATE PRIVATE DECISIONS. IN THIS CONNECTION USG SIDE, TO APPARENT

SURPRISE OF ISRAELIS, MADE LENGTHY PRESENTATION OF PROBLEMS EXPERIENCED BY INVESTORS ARISING FROM ISRAELI INVESTMENT AND TAX LAWS, AND PROBLEMS DERIVING FROM LACK OF EXPEDITIOUS APPROVAL OF AUTHORIZED BENEFITS. USG SIDE URGED PRIORITY ATTENTION TO THIS MATTER AND ISRAELI SIDE INDICATED GOI WAS CONSIDERING IMPROVEMENTS.

(B) BOTH SIDES AGREED THAT PRIVATE BUSINESS COUNCIL TO BE ESTABLISHED SOON COULD BE HELPFUL. BOTH SIDES AGREED TO REVISE AND UPDATE PUBLICATIONS, AND COOPERATE IN ORGANIZING BUSINESS SEMINARS AND OTHER INFORMATION PROGRAMS. USG WILL SEND EXECUTIVE BUSINESS MISSION TO ISRAEL WITHIN SIX MONTHS. POSSIBILITIES FOR INCREASING USAGE OF OPIC PROGRAMS WERE ALSO CANVASSED.

(C) IT WAS AGREED TO BEGIN NEGOTIATIONS IN ISRAEL IN MID-OCTOBER OR EARLY NOVEMBER ON TREATY FOR AVOIDANCE OF DOUBLE TAXATION. IN THIS CONNECTION USG SIDE NOTED STRONG CONGRESSIONAL OPPOSITION TO PROVISIONS  
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PROVIDING FOR TAX SPARING AND SUGGESTED THAT PROSPECTS FOR REVERSING THIS OPPOSITION WERE SLIM. HOWEVER, USG INDICATED ON HIGHLY CONFIDENTIAL BASIS WILLINGNESS TO EXPLORE ACCEPTABILITY OF ALTERNATIVE ALLOWANCE OF 7 PERCENT INVESTMENT CREDIT AS OFFSET AGAINST FOREIGN SOURCE INCOME. ISRAELI DELEGATION SHOWED KEEN INTEREST IN THIS POSSIBILITY, WHICH WOULD REQUIRE CHANGE IN U.S. TAX LAW.

7. (A) IN SUBCOMMITTEE ON TRADE BOTH SIDES AGREED ON IMPORTANCE OF EARLY PASSAGE OF U.S. TRADE EXPANSION ACT. USG SIDE MADE CLEAR LIMITS WHICH EXIST ON NEGOTIATING BILATERAL NON-MFN TRADE CONCESSIONS FOR ISRAEL. USG SIDE PROMISED TO STUDY CAREFULLY THE SPECIFICS OF HOW ISRAELI TRADE INTERESTS COULD BEST

BE ACCOMMODATED WITHIN FRAMEWORK OF FORTHCOMING MULTILATERAL TRADE NEGOTIATIONS; ISRAEL EXPRESSED FEAR THAT SIGNIFICANT PART OF ITS MAIN EXPORTS WOULD NOT BENEFIT FROM MTN IN A WAY WHICH WOULD SPUR RAPID AND NEEDED GROWTH IN ISRAEL'S EXPORT EARNINGS. U.S. SIDE DISCOURAGED ISRAELI SIDE FROM LOOKING TO FREE-TRADE AREA (FTA) IN ELECTRONICS, OR BROADER FTA AS PRACTICAL SOLUTIONS TO PROBLEM OF INCREASING U.S.-ISRAELI TRADE.

(B) IN DISCUSSION OF NONTARIFF BARRIERS, USG SIDE INDICATED INTENTION TO PLACE NTB'S ON TABLE DURING MTN; IN MEANTIME U.S. WAS RELUCTANT TO DISCARD ITS

BARGAINING CHIPS. GOI REQUESTED WAIVER OF BUY AMERICAN ACT PROVISIONS FOR ISRAEL; USG SUGGESTED GOI PROVIDE SPECIFIC INFORMATION ON PAST INSTANCES WHERE BUY AMERICAN ACT PREVENTED IMPORTANT SALES. USG ALSO SUGGESTED GOI EXPLORE POTENTIAL FOR SALES TO U.S. NONDEFENSE AGENCIES WHERE LESS DISCRIMINATION EXISTS VIS-A-VIS FOREIGN SUPPLIERS. GOI ALSO PROPOSED AND USG AGREED TO LOOK AT FEASIBILITY AND DESIRABILITY OF PREFERENTIAL ARRANGEMENT FOR ALL DEVELOPING COUNTRIES WITHIN FRAMEWORK OF AN INTERNATIONAL GOVERNMENT PROCUREMENT CODE. USG REACTED NEGATIVELY TO ISRAELI SUGGESTION WE CONSIDER INSTITUTIONALIZING OFFSET PURCHASES IN DEFENSE SECTOR. USG SIDE NOTED ABSENCE

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OF LEGAL OBSTACLE TO ISRAEL'S ELIGIBILITY TO PARTICIPATE IN AID'S OFFSHORE PROCUREMENT PROGRAMS AND AGREED TO TAKE POSITIVE APPROACH BETWEEN NOW AND NOVEMBER IN DETERMINING WHETHER ISRAEL CAN BE ADDED TO LIST OF ELIGIBLE SUPPLIERS.

(C) ISRAELIS REQUESTED THAT GSP BENEFICIARY PROVISION AFFECTING ISRAEL IN TRADE EXPANSION ACT BE MADE DISCRETIONARY RATHER THAN MANDATORY, AND THAT USG FIND WAY TO EXTEND GSP TO ISRAEL DESPITE REVERSE PREFERENCES ISRAEL GIVES TO EUROPEAN COMMUNITY. ISRAEL AGAIN DENIED REVERSE PREFERENCES HAD DAMAGED U.S. EXPORTS TO ISRAEL, BUT ACKNOWLEDGED FOLLOW-ON AGREEMENT BEING NEGOTIATED WOULD HURT. USG SIDE ASKED FOR LIST OF ITEMS OF PARTICULAR INTEREST TO ISRAEL FOR CONSIDERATION DURING MTN, AND SUGGESTED THAT ISRAEL SHOULD BE PREPARED TO ACT IN MTN ON LIST OF ITEMS ON WHICH USG SIDE BELIEVES IT IS BEING DISADVANTAGED BY PREFERENCES. EFFORTS COULD BE MADE IN MTN TO REDUCE OR ELIMINATE DISCRIMINATION RESULTING FROM OUR GSP AND EC SPECIAL PREFERENTIAL ARRANGEMENTS.

8. IN SUBCOMMITTEE ON RAW MATERIALS, ISRAEL SOUGHT CATEGORIC ASSURANCES THAT ISRAEL WOULD NEVER BE AFFECTED BY FUTURE IMPOSITION OF EXPORT CONTROLS. USG SIDE EXPRESSED DOUBT THAT CONTROLS (EXCEPT ON FERROUS SCRAP) WERE LIKELY IN FORESEEABLE FUTURE AND PROMISED SYMPATHETIC CONSIDERATION FOR ISRAEL'S REQUIREMENTS, THOUGH WE WERE UNABLE TO PROVIDE UN-CONDITIONAL GUARANTEE IN ADVANCE. USG URGED ISRAEL TO CONSIDER ESTABLISHING POSITION IN U.S. MARKET TO FACILITATE THIS, SINCE USG GENERALLY APPLIES EXPORT

CONTROLS ON BASIS OF HISTORICAL POSITION IN OUR MARKET. ISRAELIS INDICATED THAT THEY REQUIRED MORE DEFINITE ASSURANCES. USG WAS HAPPY TO FACILITATE PURCHASES FROM OUR STRATEGIC STOCKPILES OF COMMODITIES, AND PROVIDED LIST OF COMMODITIES NOW AVAILABLE. USG SIDE PROVIDED TECHNICAL INFORMATION ON STORAGE FACILITIES FOR VARIOUS COMMODITIES AND WAS WILLING TO EXPLORE POSSIBILITY OF FACILITATING BONDED CONFIDENTIAL

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STORAGE IN UNITED STATES AND/OR ISRAEL. USG ALSO EXPLAINED FACILITIES OF COMMERCE DEPARTMENT FOR IDENTIFYING SUPPLIERS FOR ITEMS SOUGHT BY ISRAEL AND OFFERED ASSISTANCE TO ISRAEL IN THIS REGARD, AS WELL AS PROVIDING INFORMATION ABOUT AVAILABILITIES. KISSINGER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN INVESTMENT, COMMITTEES, FOREIGN TRADE  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 14 SEP 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** kelleyw0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Errors:** N/A  
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**Previous Handling Restrictions:** n/a  
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**Review Content Flags:**  
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**Secure:** OPEN  
**Status:** NATIVE  
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**TAGS:** ETRD, EFIN, EIND, EINV, IS, US  
**To:** TEL AVIV  
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